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ABSTRACT

Reasons why corporations should support colleges and universities are suggested by the head of both the General Foods Corporation and the Council for Financial Aid to Education (CFAE). Higher education faces three crucial problems: the decrease in federal funding, especially student financial aid; decreasing enrollments; and probable decreasing support to higher education in the future. Business faces the opportunity to regain public confidence by helping society cope with adjustments resulting from federal funding cuts. The President's Task Force on Private-Sector Initiatives was established to promote private assistance to meet community needs. A Business Roundtable has recommended that company officers offer visible support and leadership for corporate involvement and encourage voluntarism among the employees, as well as strengthen the company's contributions and/or public affairs budgets. CFAE's annual survey of corporate support indicates that the average for giving to higher education historically has averaged around .35 percent of pretax net income. Because of the drop in corporate income, the average rose to .49 percent of pretax net income in 1981. General Foods Corporation is targeting 45 percent of its philanthropy to higher education and nutrition and food sciences education. (SW)

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Why Corporations Need to Do More

by

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Chairman, General Foods Corporation

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JAMES L. FERGUSON

James L. Ferguson, chairman and chief executive officer of General Foods Corporation, believes that corporations have an opportunity to improve their credibility with the public—by responding positively to expectations that business will help fill gaps in social programs caused by cuts in federal funding.

A particularly appropriate positive response for corporations to make, he suggests, is to do more to help colleges and universities maintain their academic excellence, now being threatened by new fiscal difficulties. In this speech before the annual meeting of the CFAE Cleveland Committee for Corporate Support of Education, he comes up with some compelling reasons why they should do more and also why it is time for corporations to rethink policies of not publicizing their social-support activities.

Mr. Ferguson has been the company's chief executive officer since September 1973. From July 1974 to April 1977 he served as both president and chairman. He came to General Foods in 1963 as assistant to the marketing manager of the frozen foods division from Procter & Gamble, where he had been an associate advertising manager.

A graduate of Hamilton College and the Harvard Business School, Mr. Ferguson served with the U.S. Army Corps of Engineers in the Pacific Theater during World War II. He is a director of a number of companies, including Union Carbide Corporation, Federated Department Stores, Chase Manhattan Bank and Sawyer-Ferguson-Walker Co., a director and past chairman of Grocery Manufacturers of America, a member of the Business Roundtable, Business Council, Conference Board and Council on Foreign Relations and a trustee of Hamilton College.

A member of the CFAE board since 1977, Mr. Ferguson was elected chairman in April 1982.

Why Corporations Need to Do More

I was especially happy to receive this invitation to speak here this afternoon to the members and friends of the CFAE Cleveland Committee for at least two reasons. One is that I am a Middle Westerner by birth. I was born and brought up not too far from here, in Evanston, Illinois, and I held my first big job even closer by, in Cincinnati. So every time I get west of the Appalachians, it's a little bit like coming home.

The other, more important reason why I'm glad you invited me here this afternoon is that I believe in the importance of the work of the Council for Financial Aid to Education. I believe what it is doing to increase voluntary support of higher education may turn out to be almost as important to the corporate world, to the businessmen and women of the country, as it is to our colleges and universities.

It's because I believe so strongly in the importance to the corporate world, as well as to higher education, of what the Council is trying to do that I agreed to serve as its chairman.

There are at least two good reasons why all corporations should want the Council to succeed in its efforts to increase giving to our colleges and universities. The first reason has to do with the needs of the colleges. The second reason has to do with the unique situation of the business world at this time.

I spoke to a gathering of executives similar to this in White Plains last November. At that time I said that higher education in this country had come to a crucial turning point. What happens in the next five years may well determine if our colleges and universities will be able to maintain the excellence and independence that has constituted them the finest system of higher education in the world. Business also faces a

crucial opportunity at this time. It has a chance to regain some of the public confidence and support that it has lost in recent years. And one of the best ways business can capitalize on this opportunity is to help our society cope with a number of adjustments required by reductions in federal spending.

Shrinking resources threaten colleges

Higher education today faces three crucial problems.

The first, and at the moment, the most hotly discussed, is the decrease in federal funding for higher education—especially the funding of student aid. These decreases make it clear that new methods of financing college students—or perhaps a return to old-fashioned ones—will have to be found if colleges and universities are to maintain the rate of enrollment they have enjoyed in the past and if the same percentage of disadvantaged students are to continue in higher education.

The second big problem is also one of enrollment. The number of 18-year-old men and women in the United States is going down. By the year 1990, the total number of these 18-year-olds—the group from which colleges and universities traditionally get most of their students—will drop 25 percent. This doesn't necessarily mean that college enrollments will drop 25 percent, because there are other ways that some of this enrollment can be made up—by increasing the number of adult students, for example. It does mean, however, that all colleges will have to devote a much larger percentage of their resources—a lot more time, money and energy—to keeping up enrollment than they have in the past. This could mean less money to spend on teaching, research and other academic activities.

A third problem—and we don't know yet how serious this will be—is the probability that changes in the tax laws will result in less money being contributed to higher education in the future. Past history indicates that when taxes are

cut, giving goes down. The reason is simple. It costs a person paying a tax of 70 percent on unearned income only 30 cents to give a dollar to charity. When the tax is lowered to 50 percent, as it was in the tax act of 1981, it costs that person 50 cents to give a dollar. Moreover, income taxes were cut 25 percent over three years. The effective tax on unearned income was lowered. So were taxes on trusts and estates. All of these changes increase the cost of giving to charity. Some pundits estimate that this will reduce giving to philanthropy by billions of dollars a year. Others argue that because people and corporations will have more money in their pockets after taxes, they will be more generous with it. I hope these people are right, but if they are, it will be the first time in history. If they are wrong, higher education—indeed, all philanthropy—will need our aid more than ever.

This, then, is the first of the challenges I spoke about a moment ago—the challenge to help make sure that our colleges and universities can continue to benefit the corporate world in particular and all society in general by training leaders in the new skills that will be necessary in the years ahead.

Business faces raised expectations

Business also is at a crucial turning point. Large segments of the public believe that corporations have been the primary beneficiaries of supply-side economics. And for this reason, some of the public no doubt believes that businesses should make up for a large share, if not all, of the federal cuts in social spending.

Well, we know that we can't replace on a dollar-for-dollar basis all of these federal spending cuts. Their magnitude is just too great. Furthermore, each of us knows of some federal program that deserved to be curtailed or even eliminated entirely rather than to be kept alive by somebody else. Nonetheless, my point here is that we do face raised public expectations that we should not ignore. Business simply must respond.

For years business leaders have been telling the public that if only government would get off our backs, we could do a lot of things better than the government does. Well, the people agreed. They backed the Reagan program. They've given us more elbow room, but they've also raised their expectations. They have said to us, in effect, "O.K. We realize the government can't, or shouldn't, do it all. Well, we've cut the burden of government. Now show us what business can do."

This is a moment of supreme opportunity for all of us—one that might not come again if we don't measure up. You've probably heard of one activity put together to coordinate our hoped-for assistance called the President's Task Force on Private-Sector Initiatives. President Reagan has enlisted some high-powered men and women to help make this task force a real catalyst for action—including the chairman, one of your friends and neighbors, William Verity, Jr., former chairman of Armco Steel.

President's task force asks for help

According to its statement of mission, the President's Task Force on Private-Sector Initiatives was commissioned "to help encourage increased private contributions of both human and financial resources to the development of America's communities."

The statement of mission lists some eight things that the task force seeks to do.

Let me call your particular attention here only to two of these objectives because they bear on a point that I want to make. The seventh objective is "to give national and official recognition to models of successful private initiative and promote their adoption in communities that face similar challenges." In furtherance of objective eight the task force will collect information on these private initiatives by creating a computerized project bank "to collect and share information on private initiatives, partnerships and creative solutions devised by private-sector groups."

Corporations are responding to the appeal—they are sending in material, although it is not exactly a bumper crop yet. A more important point is that the President's task force recognizes the importance of letting the public know what the corporate world is doing. This is a subject I will return to, but first I want to tell you about a letter written by Andrew Sigler, chairman of Champion International and a member of the President's task force. Mr. Sigler is also chairman of the Corporate Social Responsibility Task Force for the Business Roundtable, and he wrote this letter to members of the roundtable telling them about the mission and goals of the President's task force.

He starts out by reminding the members that "the spotlight has been turned on business with a new intensity as a result of cutbacks in government-funded programs"—the same point I have been making here this afternoon.

Business Roundtable calls for new effort

Mr. Sigler recognizes that many companies are already involved in a wide array of public-service activities, but states, and I quote, "Most of us will agree that a vigorous new effort is required at the community level."

He goes on to say, "Bill Verity, who heads the President's Task Force on Private-Sector Initiatives, asked the roundtable to help implement the task force's broad goals. In response to these requests, the Policy Committee agreed to ask the chief executive officers of each roundtable company to do the following:

1. Offer his personal and visible support for the principle of corporate involvement.
2. Urge his company to participate actively and, where warranted, to provide leadership force in helping local communities to solve problems.
3. Encourage voluntarism in its many forms among all his company's employees.
4. Strengthen his company's contributions and/or public affairs budgets as needed."

He concludes by asking that he be kept

informed of ways in which the company is responding to this request.

Chief executive should get involved

There are two or three features about his letter to roundtable members that have special significance for all of us here. First, and probably most important, is the statement that despite all that corporations have done in the past, a "vigorous new effort" is required. This is a tacit recognition of the need to respond to the heightened public expectations to which I referred earlier. This need is underscored by the appeal to the chief executive officers to get involved. The corporate response is no longer a matter that can safely be left with middle management. It has become so important to the future of corporate America that the person most responsible for the future of the corporation—the chief executive officer—is asked to add corporate social responsibility to an already long list of responsibilities.

And finally, the request to be kept informed of what the corporations are doing in response to this appeal has more significance than may at first appear. It has long been the custom for many generous corporate givers, both large companies and small, not to give publicity to their good deeds. The reasons for this reticence are many. The first, and probably most prevalent, is simple modesty. Others may not have wanted to publicize their contributions because they feared this would attract more petitioners. And in today's troubled economy, when many companies are being forced to retrench, some may feel that this is not an especially good time to publicize philanthropy.

Time to rethink "no publicity" policy

Still, the roundtable and the President's task force both want to hear about new and innovative efforts to meet any of the new needs of our society. They want to know about and publicize corporate attempts to help. They want the information because they know that the public is expecting the private sector to do more. There's no question that the private sector *is* doing more. However, all the best efforts of the private sector to do more to help aren't going to do very much to satisfy public expectations unless the public hears about what is being done. That's why the President's task force wants to hear from you about what is being done. That's why the roundtable wants to hear from its members. And that's why I urge all of you to rethink your policies on publicizing your good works—your efforts on behalf of higher education and the community and other deeds of corporate social responsibility.

Some of you may recall that the late Secretary of the Navy James Forrestal wrote in his memoirs that when he came into public service, he thought if a public servant did his job honestly, thoroughly and competently, that was all that was required of him. It wasn't until he had been in public service for many years, Forrestal wrote, that he realized that doing the job properly was only half of what was required. The other half was to make sure the public knew what was being done, and why. Because, Forrestal said, no person, no organization, can long survive in our society without the approval of the public. And if you want the approval of the public, you must let them know what you are doing to deserve it.

In this connection, I might add that the Council has a very good, concise little booklet called *Corporate Social Responsibility* which lists a number of ways that corporations can let the public know what they are doing.

Corporations give most to colleges

In the past, corporate efforts to help the community have included a wide variety of positive, socially responsible corporate programs. What we are particularly concerned about here today, however, is one part—an important part—of any corporate program of social responsibility. That is your contributions program and, more importantly, the part of your contributions program

which centers on aid to education. As I indicated at the beginning of my presentation, I believe that this is one of the areas that is most important to the corporate world and, therefore, that it is important for us to do more—a lot more, if we can—for colleges and universities. Fortunately, higher education is already the number-one beneficiary of corporate philanthropy. Last year it received about 38 percent of all corporate contributions: the largest percentage received by any cause. What's more, corporate contributions to education have been increasing steadily over the years. The total topped one billion dollars in 1980, and indications are that the total was even higher in 1981.

All of you know how much you gave to higher education and what you are planning to do in the coming year. I am sure all of you will be making an honest effort to do as much as you can, and I urge you to do so.

Are you above or below average?

In view of the importance the government and the public are attaching to what corporations do now, I thought you might like to have an idea of where you, as a corporation, rank. Here are some averages, taken from CFAE's annual survey of corporate support. Historically, total corporate contributions to all causes have ranked just below 1 percent of pretax net income. That percentage, however, has gone up in the past two years because the drop in corporate income was not accompanied by an equal drop in giving. CFAE estimates that in 1981, corporate contributions amounted to about 1.24 percent of pretax net income. As a general rule of thumb, however, you can figure that if you are giving less than 1 percent of your pretax net income to all causes, you are below the survey average. If you are giving somewhat more than 1 percent, you are close to the average.

The average for giving to higher education historically has hovered around .35 percent of pretax net income. Again, because of the drop in corporate income, the average rose to .49 percent of pretax net income in 1981. However, I think that those of you who are consistently giving more than .35 percent of your corporate pretax net income to higher education can feel pretty confident that you are above average compared to the rest of the survey companies. Less than .35 percent is, of course, below average.

Being average is not good enough

Actually, being just average in your corporate contributions is just not going to be good enough, in my view, because of today's needs. The president's task force recognized this fact when it set its goal for corporate giving. This is what it said: "The task force recommends that corporations *double* within four years the level of cash contributions to nonprofit organizations engaged in public service, with a goal of tax-deductible contributions equaling at least 2 percent of pretax net income." Two percent of pretax net may sound like a lot to some of you now, but it's not as far out as it may seem. Five years ago, the latest year for which we have figures, there were 130,000 American corporations that gave 2 percent or more of pretax net income to philanthropy, and of those, nearly 59,000 gave 5 percent or more. The number is surely greater today. So it can be done.

Since I am asking you to make this special effort on behalf of higher education and the corporate world, I think it is only fair to give you an idea of what my company is aiming to do. We have set a contributions goal of 2 percent of pretax net income by fiscal 1987. That will be a little more than double the percent of pretax net income that we contributed in 1980. And of our total philanthropy, about 45 percent is targeted at higher education and education in nutrition and food sciences. We are going to reach the 2 percent goal. And in the process, we intend to keep our employees, our shareholders, the President's task force and the general public informed about what we are doing and what we are accomplishing.

I invite all of-you, to the extent that you are able, to join in to help maintain excellence of higher education, to help the private sector respond to the public's expectations and to help assure the future of our country. And remember, being average just won't be good enough.

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The Council for Financial Aid to Education (CFAE), a nonprofit service organization, promotes increased voluntary support of higher education by all sources, but especially by the corporate community.

CFAE was founded in 1952 by five prominent business leaders, the chairmen of United States Steel, General Motors, Exxon, Container Corporation and Armstrong Cork. The chairmen were Irving S. Olds, Alfred P. Sloan, Jr., Frank W. Abrams, Walter P. Paepcke and Henning W. Prentis.

CFAE staff members call personally upon hundreds of top-echelon business executives every year to explain the financial needs of higher education and to enlist corporate support in meeting them. CFAE also conducts seminars and offers counseling services for corporate and college administrators. It publishes an annual report on voluntary support received by colleges and universities, an annual report on corporate support of higher education, special studies in fields related to educational philanthropy, "how-to" manuals and other materials designed to broaden the base of educational support.

CFAE sponsors the nationwide public-service advertising campaign, "Give to the college of your choice," through the Advertising Council. This campaign has elicited as much as $34 million worth of free time and space from the media in a single year.

CFAE itself neither solicits nor disburses funds for higher education. Originally funded by four major foundations—the Carnegie Corporation of New York, the Ford Foundation, the Rockefeller Foundation and the Alfred P. Sloan Foundation—CFAE now draws its support from more than 400 leading American corporations.

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